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Agenda Item 5c

November 15, 2011

TO: MEMBERS OF THE FINANCE COMMITTEE

- I. SUBJECT:** Fiscal Year (FY) 2011-12 Mid-Year Budget Revisions (First Reading)
- II. PROGRAM:** Administration
- III. RECOMMENDATION:**
- (1) The Committee accept the proposed California Public Employees' Retirement System (CalPERS) FY 2011-12 Mid-Year increase of 25.0 positions, increasing CalPERS total authorized positions to 2,393*, while maintaining the existing Administrative Budget of \$334,196,000, and recommend the Board of Administration (Board) approve the Budget as a first reading.
 - (2) The Committee accept the proposed CalPERS FY 2011-12 Mid-Year increase of \$6,844,000 to the Enterprise Projects Budget for a total budget of \$49,855,000, and recommend the Board approve the Budget as a first reading.
 - (3) The Committee accept the proposed CalPERS FY 2011-12 cost allocation adjustments to the Public Employees' Retirement Fund (PERF), and other funds, and recommend the Board approve the cost allocation as a first reading.
 - (4) The Committee recommend the Board approve the transmittal of this agenda item to the Joint Legislative Budget Committee and the Fiscal Committees of the Legislature, the State Controller, and the Department of Finance, in accordance with the Budget Act of 2011 (Budget Act), and to the Legislative Analyst's Office and the State and Consumer Services Agency.

*Assuming approval of 2.0 BCP positions in Agenda Item 5b

IV. ANALYSIS:

Summary

CalPERS, with support of Executive Leadership, has maintained zero-growth in the Administrative Budget for the past three years. Attachments 1 and 2 show the recent history of no growth in the Administrative Budget and minimal position growth, respectively. Consistent with this practice, the FY 2011-12 mid-year requests propose no increase to the Administrative Budget.

The purpose of the Mid-Year Budget process is to address critical, unforeseen and emergency resource needs not included in the FY 2011-12 Business Planning and Budget processes. Considering the State's challenging fiscal environment and resource demands for current organizational initiatives, Executive Staff considered only mid-year resource requests which met specific mid-year criteria.

Several divisions prepared mid-year resource requests demonstrating new needs critical to the Enterprise that were unforeseen during the FY 2011-12 Annual Budget process. Staff reviewed these requests and was able to redirect resources from within the Enterprise to meet these needs.

ADMINISTRATIVE BUDGET

Formal Budget Requests

There is no proposed increase to the Administrative Budget for the current year. Existing resources of \$2,584,000 from within the organization will be redirected to address mid-year needs. Redirection will be primarily from reductions to division budgets, including a five percent reduction to consultant and professional services contracts.

Most of the redirection amount, totaling \$2,088,000, will be used to fund 25.0 additional positions identified through the Mid-Year Formal Budget Requests process as being critical to Enterprise needs. This would increase CalPERS current positions from 2,368 to 2,393. Mid-year requests also included funding for the Board financial statement auditor and consulting services for the newly established Center for Innovation. CalPERS staff recommend establishing these 25.0 positions and resources as shown in Attachment 3. Attachment 4 details all positions by Branch. There were also \$536,000 and 7.0 authorized positions requested that were not recommended for approval. These requests did not meet the mid-year criteria of being unforeseen, critical, or emergency situations. More information regarding requests that were not recommended for approval is provided in Attachment 5.

Technical Adjustments

In addition to the proposed FY 2011-12 Mid-Year resource request amount of \$2,088,000, there is a technical adjustment of \$496,000 needed to fund health premium increases effective January 1, 2012. Including technical adjustments, the total mid-year need is \$2,584,000.

Cost Allocation Update

CalPERS staff uses a cost allocation methodology to equitably distribute administrative program costs across CalPERS funds. The methodology classifies CalPERS divisions as program or administrative. Program division expenses are charged directly to funds they support, while administrative division expenses are allocated to each fund based on the level of support they provide to program divisions.

The Fiscal Services Division surveys administrative divisions on an annual basis to determine their level of support over the prior fiscal year. The workload results are then applied to the current year's budget to determine each fund's share of administrative costs. The cost allocation model was completed in October with current year line item budget information and mid-year budget adjustments entered for each division. As a result of those adjustments, approval of the revised fund appropriation levels is recommended. Attachment 6 reflects those revisions.

ENTERPRISE PROJECTS BUDGET

Current Budget

The current budget for Enterprise Projects is \$43,011,000 and is appropriated to the PSR, Enterprise Transition Management (ETM), and Financial System Integration Project (FSIP) projects.

Proposed Budget Increase

The proposed Enterprise Projects Budget is \$49,855,000, an increase of \$6,844,000. With the PSR launch on September 19, 2011, overtime on Customer Acceptance Testing (CAT) and other PSR related activities is necessary. These overtime costs were not part of the original FY 2011-12 Projects Budget. At the initial launch, the system was not able to deliver all of the critical functions that were originally planned; a series of releases will occur after launch and continue through 2012.

As a result, additional consultant, hardware and software costs, and extended backfill resources are being requested.

Table 1 below provides a summary of the changes to the Enterprise Projects Budget for FY 2011-12.

Table 1

FY 2011-12 Enterprise Projects Recommended Budget (\$ in Thousands)			
	Annual FY 2011-12 Projects Budget	Mid-Year FY 2011-12 Augmentation	Total Projects Budget
PSR:			
Accenture Contract	\$8,037	-	\$8,037
Contract Staff	14,180	1,665	15,845
Backfill Resources	10,133	832	10,965
Independent Project Oversight Consulting	1,788	-	1,788
Hardware and Software	-	986	986
State Staff and Operating Costs	772	3,361	4,133
Employer Training	284	-	284
Legal Costs	250	-	250
Subtotal	35,444	6,844	42,288
ETM:			
Contract Staff	3,871	-	3,871
Independent Project Oversight Consulting	729	-	729
State Staff and Operating Costs	383	-	383
Subtotal	4,983	-	4,983
FSIP:			
Contract Staff	2,584	-	2,584
Subtotal	2,584	-	2,584
Total	\$43,011	\$6,844	\$49,855

CalPERS HEADQUARTERS BUILDING ACCOUNT BUDGET

There are no proposed changes to the CalPERS Building Account Budget for FY 2011-12. The total CalPERS Building Account remains at \$42,611,000.

The following table below provides a summary of the current budget.

Building Account Categories	Amount (\$ in Thousands)
Operating Expenses	\$22,200
Non-Operating Expenses	15,226
Facilities Support	5,185
Total	\$42,611

V. RISKS:

There are no known risks with accepting this recommendation.

VI. STRATEGIC PLAN:

This item is not a specific product of the Strategic Plan. It is brought to the Finance Committee and the Board to satisfy the following requirements: (1) obtain approval of FY 2011-12 Mid-Year budget revisions; and (2) fulfill Budget Act control language requirements.

VII. RESULTS/COSTS:

There is no change to the CalPERS FY 2011-12 Administrative Budget of \$334,196,000. There is an increase of 25.0 positions, funded internally; adjusting the current total authorized positions from 2,368 to 2,393. The Enterprise Projects Budget will increase by \$6,844,000 from \$43,011,000 to \$49,855,000. The CalPERS Building Account budget of \$42,611,000 will remain unchanged. Recommendations contained in this agenda item will take effect upon the approval of the second reading by the Board at the December 14, 2011, meeting.

DAVE G. CORNEJO, Acting Division Chief
Fiscal Services Division

RUSSELL G. FONG
Acting Chief Financial Officer

Attachment